

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



Welfare Department

18 Months Ended December 31, 2017

Prepared by

City of Manchester, NH – Finance Department

Internal Audit Division

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
WELFARE DEPARTMENT
18 MONTHS ENDED DECEMBER 31, 2017
TABLE OF CONTENTS**

	<u>PAGE</u>
INTRODUCTION	1
AUDIT OVERVIEW	3
INTERNAL AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING	5
INTERNAL CONTROL COMMENTS	
OBSERVATION 1: POLICIES AND PROCEDURES MANUAL NEEDS UPDATING	7
OBSERVATION 2: SEGREGATION OF DUTIES ISSUE	7
OBSERVATION 3: VOUCHER CONTROL LOG NOT KEPT	8
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2017.....	9
STATEMENT OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL – GENERAL FUND FOR THE 6 MONTHS ENDED DECEMBER 31, 2017.....	10

CITY OF MANCHESTER, NEW HAMPSHIRE WELFARE DEPARTMENT

INTRODUCTION

Organization

The State of New Hampshire Revised Statutes Annotated (RSA) Chapter 165:1 states “Whenever a person in any town is poor and unable to support himself, he shall be relieved and maintained by the overseers of public welfare of such town, whether or not he has a residence there.” By City Charter the responsibility to administer and direct public welfare programs has been assigned to the City Welfare Department (Department). The Department was under the executive direction of an elected Commissioner of Welfare (Commissioner) during the audit period but currently is under an appointed Director. The Commissioner was elected in the municipal general election by nonpartisan ballot to a two-year term.

At December 31, 2017, in addition to the Commissioner, the Department employed 6 full time Welfare Specialists, an Administrative Services Manager and an 2 Security personnel.

Responsibilities

The Department is responsible to administer and direct public welfare programs, including emergency and continuing assistance programs and shall perform such other duties as are prescribed by federal and state law.

By State law (RSA 41:46) the overseers of public welfare shall:

- Keep full and accurate records of the assisted persons fully supported, persons relieved and partially supported, and the travelers and vagrants lodged at their expense together with amounts paid by them for such support and relief.
- Act on behalf of the Commissioner of the State of New Hampshire Department of Health and Human Services when requested in the administration of old age assistance, aid to families with dependent children, and aid to the permanently and totally disabled.
- Assist applicants of the programs listed above with completing the applications, verifying statements on applications and recertifying recipients as required by law.
- Adopt and maintain written guidelines relative to general assistance.

The Department is often the first place that citizens turn to when they are in need of services and acts as the place of last resort for the City’s indigent and homeless population. The role of the Department is to deliver emergency aid and to evaluate and direct needy citizens to existing programs that are the most beneficial for them.

Funding

The Department is funded entirely from appropriations in the City's General Fund. The cost of direct aid to welfare recipients is partially reimbursed from clients, the State of NH and other towns whenever possible. Reimbursements for the year ended June 30, 2017 and the six months ended December 31, 2017 were \$18,172 and \$6,311 respectively on direct aid expenditures of \$125,662 and \$84,274 respectively.

Audit Objectives and Scope

The primary objective of the audit was to express an opinion on compliance with certain provisions of applicable City ordinances, State law, rules, regulations and contracts. Major accounts or areas subject to Internal Audit's (IA) examination included, but were not limited to, the following:

- Internal Controls
- Revenues and Appropriations
- Expenditures
- State and City Compliance

My procedures included:

- Interviews with appropriate employees
- Documentation and walk through of department procedures
- Random selection and testing of 25 revenue collections
- CMA sample selection and testing of 30 direct client payments
- Complete testing of one week's payroll
- Review of 37 client files for compliance with departmental and State welfare rules

My report on compliance and internal control over financial reporting, the related observations and recommendations, and the financial statements of the Department are contained herein.

CITY WELFARE AUDIT OVERVIEW

At the March 20, 2018 meeting of the Committee on Accounts, Enrollment and Revenue Administration (COA) a request was made to perform a full audit of the Welfare Department. This was due to a change in department head. The entrance conference was conducted with Department personnel on May 10, 2018. Fieldwork commenced that day and concluded on June 29, 2018.

Fieldwork began with a review of operating procedures at the department to gain an understanding of its internal control procedures.

The process for client intake begins when an applicant comes into the office and fills out a “contact sheet”. The contact sheet gives basic information in order to make a determination of immediate need. If it is determined that it is an emergency, the client will be seen immediately and fills out an application. If no emergency exists, the client will be given an application and an appointment at a later date. The client will also be told of any documentation that they will need to bring with them to the appointment. At the appointment the caseworker will develop a plan with the client that will move them off of City welfare and either onto self-sufficiency or State welfare in the shortest time possible. The plan usually involves applying for other aid, developing a budget for any income the client may have and referrals to other resources such as mental health, food bank, unemployment and temp agencies. All of the things decided on will be written up in a formal Notice of Decision (NOD) that the client signs. The client is informed both in writing and verbally that failure to comply with the NOD may result in suspension of benefits.

The Department processed 1,636 intake and referral clients in the fiscal year ended June 30, 2017 and an additional 755 for the six months ended December 31, 2017. This case load was handled by six full-time welfare specialists.

In comparison to when the last audit was completed in FY 2001 the country was in recession and expenses at the department were out of control. During that period the Department processed 4,172 intake and referral clients in the fiscal year ended June 30, 2001. During that time period the department employed 6 full-time and 1 part-time welfare specialists.

CASEWORK STATISTICS FY 2000 TO 2001

YEAR	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
INTAKE													
2000	219	240	221	192	211	221	237	191	231	168	238	262	2,631
2001	199	244	209	227	204	197	229	167	208	199	219	221	2,523
REFERRALS													
2000	154	189	167	145	141	195	222	194	153	152	165	171	2,048
2001	135	175	138	149	129	136	124	71	91	132	208	161	1,649
TOTAL CASES (INTAKE+REFERAL)													
2000	373	429	388	337	352	416	459	385	384	320	403	433	4679
2001	334	419	347	376	333	333	353	238	299	331	427	382	4172

CASEWORK STATISTICS FY 2016 TO 6 MONTHS ENDED 12/31/2017

YEAR	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
INTAKE													
2016	84	96	81	79	54	46	61	41	52	57	77	62	790
2017	55	83	80	79	50	51	51	43	48	50	72	87	749
2018	58	62	55	77	51	42							345
REFERRALS													
2016	91	84	91	82	88	66	57	34	63	71	55	70	852
2017	75	87	79	104	78	92	70	58	54	54	59	77	887
2018	58	82	60	93	64	53							410
TOTAL CASES (INTAKE+REFERAL)													
2016	175	180	172	161	142	112	118	75	115	128	132	132	1624
2017	130	170	159	183	128	143	121	101	102	104	131	164	1636
2018	116	144	115	170	115	95							755

Internal Auditor's Report on Compliance and on Internal Control over Financial Reporting

To The Committee on Accounts, Enrollment & Revenue Administration:

Compliance

OICA performed tests of the Department of Welfare's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of OICA's audit, and accordingly, OICA does not express such an opinion. The results of OICA's tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, OICA noted certain immaterial instances of noncompliance, which are described in Observations No. 1 through No. 3 of this report.

Internal Control over Financial Reporting

In planning and performing OICA's audit, OICA considered the Department's internal control over financial reporting in order to determine OICA's auditing procedures for the purpose of expressing OICA's opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, OICA noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to OICA's attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in OICA's judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 3 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. OICA's consideration of the internal control over financial

reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, OICA considers Observation No. 1 to be a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Department and the Board of Mayor and Aldermen through the Committee on Accounts, Enrollment, & Revenue Administration and is not intended to be and should not be used by anyone other than these specified parties.

Kevin M Buckley, CPA
Internal Audit Manager

June 29, 2018

Internal Control Comments

OBSERVATIONS

Observation No. 1 - POLICIES AND PROCEDURES MANUAL NEEDS UPDATING

Observation

All city departments are required to have a policy and procedures manual detailing the operations of the agency and controls in place to ensure that the department is in compliance with city policies and procedures and assurance that the department is meeting its goals per its mission statement. The Welfare Department does have a minimal set of Policies and Procedures however the manual lacks detail and has not been updated since it was written in 2009. Since that time the department has changed in some significant ways that are not reflected in the manual.

Recommendation:

The department should take this opportunity to review their manual and expand on descriptions of office procedures. This would ensure that in case of sudden personnel changes new employees would be able to reference the manual to make it easier to run the office during the transitional period.

Auditee Response:

Our Policies and Procedures Manual is minimalistic and in need of an update. In the coming months we will revise and expand on this manual.

Observation No. 2 – LACK OF SEGREGATION OF DUTIES

Observation:

An incompatible duty is one that would put an individual in the position to both commit an error or irregularity and then conceal it. In practice, three types of functions are commonly considered to be mutually incompatible: authorization, record keeping and custody. Ideally no individual should be able to 1) authorize a transaction, 2) record the transaction in the accounting records and 3) maintain custody of the assets resulting from the transaction. From the review of procedures over the cash receipts procedures at the Department we have noted the following weaknesses in the internal control system that does not reduce to a relatively low level the risk that an error or irregularity can be committed and not discovered in the course of an employee's regular duties in a timely manner.

During the course of reviewing office procedures it was noted that there are some instances where segregation of duties could be increased. Control of the consumable inventory which consists of food items, toiletries and gift cards is controlled almost exclusively by the Administrative Services Manager. She maintains the inventory, receives and purchases gift cards and maintains the spread sheets for all donations.

Recommendation:

It is recommended that periodic physical inventories of the food and cards be done by someone with no control over the consumable inventory and compared to the records.

Auditee Response:

Going forward we will have an employee other than the Administrative Services Manager purchase the consumable inventory for the pantry to create a greater segregation of duties. The Administrative Services Manager will do a spot inventory of the items purchased upon their arrival. The Administrative Services Manager will also create a spreadsheet of all gift cards which will detail all relevant information such as the initial dollar amount on the gift card, as well as the date and amount of any purchases made. All receipts for purchases made will be saved. This spreadsheet will be signed each time a card is used by the Administrative Services Manager and the person making the purchases. It will also be reviewed for accuracy semiannually by the Director.

Observation No. 3 - VOUCHER CONTROL LOG NOT KEPT

Observation:

The department uses a voucher control log to assign sequential unique invoice numbers for aid payments. The log is a source of initial recording of vouchers and as such is an important control document. My test work revealed that the log was not being kept in accordance with City retention policies.

Recommendation:

The control log is the record of origin for aid payments and would provide an important audit tool for the auditor. It is recommended that the log be kept and filed with the day's vouchers.

Auditee Response:

The Administrative Services Manager has indicated that she saved this log for 1 year. As the auditor's recommendation is to keep this information for 3 years we will begin doing so immediately.

**CITY OF MANCHESTER NEW HAMPSHIRE
WELFARE DEPARTMENT**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<u>Revenues</u>			
Welfare Benefit Recoveries	\$ 15,000	\$ 18,172	\$ 3,172
<u>Expenditures</u>			
Salaries	\$ 693,047	\$ 639,367	\$ 53,680
Benefits	-0-	305,843	\$ (305,843)
Direct Aid	199,782	125,662	74,120
Management Services	83,000	83,000	-0-
Office Expenses	38,411	40,446	(2,035)
Total Expenditures	\$ 1,014,240	\$ 1,194,318	\$ (180,078)

**CITY OF MANCHESTER NEW HAMPSHIRE
WELFARE DEPARTMENT**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2017**

	<u>Annual Budget</u>	<u>6 Months Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<u>Revenues</u>			
Welfare Benefit Recoveries	\$ 15,000	\$ 6,311	\$ (8,689)
<u>Expenditures</u>			
Salaries	\$ 645,249	\$ 382,846	\$ 262,403
Benefits	-0-	189,556	(189,556)
Direct Aid	198,366	84,274	114,092
Management Services	83,000	48,417	34,583
Office Expenses	37,411	16,224	21,187
Total Expenditures	\$ 964,026	\$ 721,317	\$ 242,709